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April 7, 1999

TO: Audit Committee
FROM: Patrick McMahon *PSM*
Chief, Audit Division

SUBJECT: **Second Follow-up on the Mental Health Task Force Report**

We have completed a second follow-up on the September 3, 1998 report of the Department of Mental Health (DMH) Task Force. Significant progress continues to be made. Several iterations of a Statement of Work and Request for Proposals (RFP) for a new computer system have been prepared. The Chief Administrative Office's Urban Research Unit has joined the effort to analyze DMH's billing problems. A contract has been awarded that will greatly enhance the department's ability to monitor contract provider billing activity and DMH has placed a renewed emphasis on trust fund management. The Director of DMH has assumed overall responsibility for implementation of the Task Force recommendations and has committed to establishing due dates.

However, we continue to have some concerns.

- While the spirit of collaboration between DMH and the various task force departments is high, key managers from within and outside DMH who were heavily involved in work group meetings during 1998 do not appear as frequently now.
- Although progress is being made, repair of the significant billing problems of the existing system, selection of a Chief Information Officer (CIO) for DMH, the Year 2000 (Y2K) certification of remaining systems, and development of a Request for Proposals (RFP) for a replacement system continue to be works in progress.
- System acquisition consulting and project management services for the Management Information System (MIS) replacement need to be put out to RFP and competitively bid. Until recently, DMH middle management had been spending valuable time on an effort to acquire a special-built composite computer system. To help everyone stay focused, we are suggesting a policy that RFPs and contracts need to clearly incorporate achievement of the Task Force Report findings and recommendations as the key goal of any acquisition effort.

DMH cleared all of their trusts of idle funds. Of the \$29.47 million in the Federal Financial Participation (FFP) Trust as of February 3, 1999, only \$9.73 million is left. The remainder appears to be normal activity waiting to be identified and forwarded to a provider, the General Fund, or the State.

According to DMH, the clearance of their advances payable, third-party payor, and trust accounts has significantly decreased their Net County Cost (NCC), leaving over \$70 million of unearned State Realignment funds in the Realignment Trust. If the average year-end balance of unearned Realignment funds of \$20 million is factored into the analysis, the total unearned amount may approach or exceed \$90 million by the end of the fiscal year. DMH needs to present to the Board of Supervisors a detailed plan on how this money will be spent. If this is one-time funding, it should only be used for one-time expenditures. In addition, this clearing activity has eliminated all reserves for contingent liabilities. To properly disclose and fund contingent liabilities for which DMH can establish a likely dollar amount and frequency of occurrence, a third-party payor liability needs to be recorded in the General Fund during year-end closing. To the degree that such a liability is established, the projected \$90 million unearned amount will be reduced.

Attached is a detailed report on the status of the sixteen recommendations in the original Task Force Report, dated September 3, 1998.

PTM:IDC:GWM

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Department of Mental Health **Task Force Follow-up Report**

Introduction

We have completed a second follow-up on the September 3, 1998 report of the Department of Mental Health (DMH) Task Force. The original report contained sixteen recommendations. While the spirit of collaboration between DMH and the various task force departments is high, the amount of time and priority assigned appears to be diminishing. Key managers from within and outside DMH who were heavily involved in the Billing Problems Work Group and the Management Information System (MIS) Division Reorganization Work Group meetings during 1998 do not appear as frequently now and representation at the meetings is comprised of lower level staff. DMH's Director has agreed to accept overall responsibility for completion of the Task Force recommendations and intends to establish a due date for each recommendation before the next follow up report is issued.

Repair of the significant billing problems of the existing system, selection of a Chief Information Officer (CIO) for DMH, the Year 2000 (Y2K) certification of remaining systems, and development of a Request for Proposals (RFP) for a replacement system continue to be works in progress. The timely hiring of a DMH CIO is critical to the successful implementation of the Task Force Report.

Status of the Sixteen Recommendations

No. 1: The CIO continue to meet with DMH Y2K project management to assist them in achieving full compliance as soon as possible.

In total, DMH's automated environment has 22 mission-critical subsystems subject to a Year 2000 (Y2K) impact. The original target date for Y2K compliance was December 1, 1998. The Internal Services Department (ISD) subsequently projected the remaining systems would be fully tested and certified by no later than early March 1999. As of late March 1999, seventeen (77%) had been tested and certified as Y2K compliant. The target completion date is now early April 1999 for one system and early May for the remaining four. The Office of the CIO indicated to us that they are comfortable with this timeframe. CIO and ISD/Information Technology Service (ITS) management continue to work closely with DMH to provide technical support and advice.

No. 2: DMH not begin any replacement system activities that will impact or conflict with their Y2K conversion effort.

DMH's Financial Services Bureau (FSB) is continuing their efforts to prepare an RFP for a replacement system. The FSB has also been attempting to hire William M. Mercer and Associates (Mercer) to help with RFP preparation and system implementation management. These activities do not appear to have threatened or interfered with the Y2K conversion effort.

No. 3: To the degree compliance cannot be achieved by January 1, 2000, DMH prepare formal plans to process transactions manually and back load the manual transactions into the system when possible.

In January, we indicated that DMH needed to have the process of preparing any needed contingency plan(s) well underway by the end of March. DMH is currently preparing a business continuity plan intended to comply with as yet unpublished CIO guidelines. A business continuity plan addresses what a department will need to do to continue its mission if one or more key systems fail. According to the CIO, DMH's progress is continuing and acceptable.

No. 4: DMH executive management adopt and aggressively support the precepts listed above as policy.

The precepts referred to relate to the need for claiming integrity, employee training, proper management of accounts receivable, effective quality assurance, and a sense of deliberateness and urgency in solving DMH's problems. The DMH Director has expressed to the Audit Committee his support for these ideas. He will need the continued support and encouragement of County management to be successful.

According to the FSB, DMH included in their 1999-2000 budget request the position of a Compliance Officer to establish a Compliance Program and to play an important role in DMH's Quality Assurance Program. In addition, the Department of Auditor-Controller (A-C) collaborated with the DMH to enhance and improve their efforts at monitoring contract providers. Contract audit hours have more than doubled. The result should be an improvement in the quality and integrity of provider billing activities. A contract auditor has already been selected by competitive bid from the A-C's Master Agreement list to execute the new package of review procedures.

No. 5: DMH complete development of a business process requirements list that is consistent with these precepts.

The FSB continues to develop a set of requirements that must be met by any replacement for the claims management portion of the MIS. Unfortunately, we still have not observed the same level of enthusiasm among appropriate user/managers for development of requirements for the clinical side. The clinical side cannot be separated from claims management because it collects and processes the data that supports the billings. We observed in January that it is time to balance the effort to create revenue management specifications with an equally aggressive effort to develop clinical support requirements. Automated clinical support will better enable the Department to provide services to its clients and a substantial amount of the clinical side of any new system must be put into early production for the claims management side to function properly.

We have also learned that specifications for a new pharmacy system are being developed and that this effort has not been integrated into the process of acquiring a replacement MIS. The new pharmacy system is intended to replace the Prescription Authorization and Tracking Subsystem (PATs) of the MIS.

Organized by the CIO and DMH, and with the FSB as a key participant, the Billing Problems Work Group had until recently conducted a continuing, detailed review of the MIS billing functions. The work group examined billing problems and related business processes and analyzed potential corrective actions. Under the CIO's guidance, DMH began to utilize the substantial computer skills of the Chief Administrative Office's Urban Research Unit to analyze MIS billing records and develop plans to maximize future revenues. The activities of this work group roughly paralleled the efforts of the A-C to determine which recommendations still needed to be implemented. Unfortunately, although DMH's new alliance with Urban Research will continue, the CIO manager who had so capably led this work group is out on an extended leave of absence.

No. 6: Working with the Chief Information Office (CIO), DMH use its business process requirements list to formulate a project definition and functional system specifications.

DMH has been attempting to hire the consulting firm of William M. Mercer and Associates (Mercer) to serve as facilitators and developers of the formal system specification document and the RFP and as project managers for the implementation effort. The FSB correctly recognized the need to acquire a project manager with appropriate skills and expertise. As discussed in the next section, although DMH had initially wanted to give Mercer a sole source contract, the Director of DMH has decided to competitively bid this contract. We concur with his approach.

No. 7: DMH begin an RFP process for a new system following the guidelines listed above.

The guidelines refer to the need for a professional RFP developer and project manager, emphasis on the use of functional specifications, avoidance of custom built systems, performing tasks concurrently, involvement by County Counsel and the Chief Administrative Office, and implementation of a complete system.

In our initial report dated September 3, 1998, we indicated the following:

Special-built systems need to be avoided. If an off-the-shelf system can be found, business processes should be modified to meet functionalities already part of the acquired system. Except for look and feel type improvement (e.g., addition of a graphical user interface), attempts to change the core programming should be resisted.

We are aware of one system that it is our understanding is used by 34 California counties that will probably meet the standard above and there may be others. This system is not state of the art and may never be. However, it works and offers functionality that far exceeds that of DMH's MIS, especially in terms of clinical support. It is a known quantity and the system vendor has expressed a willingness to work with our County to ensure that functionality stays in step with State mandates.

DMH FSB has expressed a clear intent at the conference table and in their Mercer Statement of Work (SOW) to build a system from components of several different systems. Mercer has described their concept of a replacement system to meet the perceived needs of DMH as involving the conversion of a general physical health care computer system, from perhaps a Health Maintenance Organization, to meet DMH's behavioral health care requirements. DMH's SOW describes the need to perform up to four separate Requests for Proposals processes for what is described as the "core managed care information system" plus systems for credentialing, pharmacy management, and reporting. Not included in the SOW are management information needs including clinic scheduling, call center management and beneficiary referral, service data collection, clinical care management and outcomes measurement.

Although Mercer would have been willing to do anything they were asked to do, they were not clearly tasked to accomplish the information system recommendations embodied in the September 1998 Task Force Report and the effort never moved past preparation of a draft SOW. A decision has now been made at DMH to put what was originally intended to be a sole source arrangement with Mercer out to competitive bid. Future Requests For Proposals (RFPs), SOWs, and contracts should clearly incorporate achievement of the Task Force Report findings and recommendations as the key goal of the acquisition effort. The detail should support the goal.

No. 8: To help stabilize the MIS system, DMH, ISD, and the CIO work with the A-C to facilitate the development of a prioritized list of key recommendations from prior A-C reports that will strengthen controls over the existing system. DMH manage the implementation of these recommendations.

The departments have worked diligently on this issue since the last follow-up report and now have a draft prioritized list of key recommendations that need to be implemented. We believe at this point that differences of opinion related to this list account for less than 10% of the outstanding recommendations. While final discussions are being completed, DMH has committed to begin work on the 90% plus on which there is agreement. Key to the ultimate success of this effort will be the availability of technical personnel and other related resources necessary to implement these controls and procedures.

No. 9: *DMH consider all recommendations as potential specifications for a replacement system.*

No. 10: *DMH work with the A-C and ISD to acquire consultant services for as needed assistance.*

The A-C and ISD have been involved in the process of helping DMH acquire needed technical staff and consulting services. Also, the MIS Division Reorganization Work Group, led by the Office of the CIO, made significant progress in the preparation of plans to improve the technical capability of the MIS Division. The A-C and ISD have been a part of these meetings. Unfortunately, due to recent staffing changes within DMH and the Office of the CIO, this activity has stalled. One notable success of this Work Group was the inclusion of a DMH CIO position in DMH's 1999-2000 budget. Also, an RFP is being drafted to acquire project management support and opportunities are being explored to retain Y2K remediation staff already under contract.

No. 11: *DMH work with the CAO and the Department of Human Resources (DMH) to evaluate the feasibility of a consolidated Revenue and Claims Management Unit for all DMH billing and claims processes and determine appropriate staffing levels.*

No. 12: *DMH ensure that the functions of the MIS Division, the Claims Management Unit, and Quality Assurance are closely coordinated.*

DMH's FSB developed and submitted a 1999-2000 budget request. DMH has been advised that the requested personnel additions will be included in the final May revision to the County Budget. The FSB has committed to working closely with all relevant Divisions and Bureaus to ensure appropriate coordination among the billing and claiming processes.

No. 13: *DMH continue to work with the A-C to refine the estimate of the amount of the overbillings.*

DMH cleared all of their trusts of idle funds. Of the \$29.47 million in the Federal Financial Participation (FFP) Trust as of February 3, 1999, only \$9.73 million is left. The remainder appears to be normal activity waiting to be identified and forwarded to a provider, the General Fund, or the State.

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| Balance (In millions) February 3, 1999 | \$29.47 |
| Transfers (2/3/99 - 4/6/99): | |
| (1) Department of Health Services | (4.86) |
| (2) Transfer to County General Fund for Loan Repayments | (5.05) |
| (3) DMH Clinic (REI/Harbor) | (3.04) |
| Contract Clinics (F/Y 1996-97) | (3.85) |
| Contract Clinics (F/Y 1997-98) | (0.26) |
| (4) Contingent Liability for DHS F/Y 1993-94 | (2.68) |
| Remaining Amount of February 3rd Balance As of April 6th | <u>\$9.73</u> |

- (1) DHS funds earned related to F/Y 1994-95 to present.
- (2) Relates to DMH's Loan Program for NGA clinics.
- (3) REI/Harbor is comprised of two clinics, one County operated and the other NGA, operating under the same Provider number. DMH separated the amounts in trust belonging to the County General Fund and recognized the revenue.
- (4) Based on a State DMH audit report, \$2.68 million is due for DHS activity.

The schedule above is a snapshot of the composition of the FFP Trust as of a particular date. Because of normal inflows and outflows, the balance can fluctuate dramatically. On March 23, 1999, DMH summarized the FFP Trust 1999 activity for us. At December 31, 1998, the total cash in trust was \$62.7 million. DMH has received and deposited to trust additional FFP funds of \$11.0 million. Revenue recognition and analysis of liabilities resulted in transferring from trust \$57.1 million (including journal vouchers in transit). Once all journal vouchers have been processed, the adjusted balance in trust for March 23rd will be \$16.6 million.

According to DMH, the clearance of their advances payable, third-party payor, and trust accounts has significantly decreased their Net County Cost (NCC), leaving over \$70 million of unearned State Realignment funds in the Realignment Trust. If the average year-end balance of unearned Realignment funds of \$20 million is factored into the analysis, the total unearned amount may approach or exceed \$90 million by the end of the fiscal year. DMH needs to present to the Board of Supervisors a detailed plan on how this money will be spent. If this is one-time funding, it should only be used for one-time expenditures. In addition, this clearing activity has eliminated all reserves for contingent liabilities. To properly disclose and fund contingent liabilities for which DMH can establish a likely dollar amount and frequency of occurrence, a third-party payor liability needs to be recorded in the General Fund during year-end closing. To the degree that a third-party payor liability is established, the projected \$90 million unearned amount will be reduced.

No. 14: The CIO, CAO, DHR, and DMH continue to reengineer the MIS Division and identify funding to acquire the skills needed.

No. 15: The CAO and the CIO work with the DHR to determine the level of the Information Technology (IT) manager that will report directly to the

Director of Mental Health. The position be responsible for all DMH EDP activities and functionally be equivalent to a Chief Information Officer for the Department.

See our comments to Recommendation 10. Also, DMH requested for the 1999-2000 budget year additional positions that conform to the CIO's recommended classifications for information technology personnel. DMH is waiting for final Board authorization of that classification scheme to finalize the proposed organization.

No. 16: Once the MIS computer system has been replaced, the new staff hired to manage the acquisition and implementation of the new system be retained to form the nucleus of the new MIS Division.

DMH continues to evaluate how best to implement this recommendation.

Conclusion

Much has been achieved since formation of the DMH Task Force and the issuance of its report in September 1998. The Director of DMH has assumed overall responsibility for implementation of the Task Force recommendations and has committed to establishing due dates. The following additional recommendations complement the Task Force Report and also need to be implemented:

- System acquisition consulting and project management services for the MIS replacement system need to be put out to RFP and competitively bid.
- Future Requests For Proposals (RFPs), SOWs, and contracts related to acquisition of a replacement computer system should clearly incorporate achievement of the Task Force Report findings and recommendations as the key goal of the acquisition effort.
- The MIS Division Reorganization Work Group needs to be re-established and facilitated.
- DMH's trust funds need to be regularly analyzed and where reasonable and appropriate, cleared of funds that can be transferred out, particularly funds belonging to the General Fund.
- DMH needs to present to the Board of Supervisors a detailed plan on how the projected balance of approximately \$90 million in the Realignment Trust will be spent and if one time money, spent on one-time expenditures.

- DMH needs to establish a third-party payor liability in the General Fund to cover contingent liabilities for which DMH can establish a likely dollar amount and frequency of occurrence.